

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman; and
Robert G. Taub

Competitive Product Prices
Global Expedited Package Services 3 (MC2010-28)
Negotiated Service Agreement

Docket No. CP2014-34

ORDER APPROVING ADDITIONAL GLOBAL EXPEDITED PACKAGE SERVICES 3
NEGOTIATED SERVICE AGREEMENT

(Issued March 25, 2014)

I. INTRODUCTION

The Postal Service seeks to include an additional Global Expedited Package Services 3 (GEPS 3) agreement (Agreement) within the GEPS 3 product.¹ For the reasons discussed below, the Commission approves the Postal Service's request.

II. BACKGROUND

The Postal Service filed its Notice on March 13, 2014. In Order No. 2018, the Commission provided public notice of the Postal Service's filing; established the instant

¹ Notice of United States Postal Service of Filing a Functionally Equivalent Global Expedited Package Services 3 Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, March 13, 2014 (Notice).

docket for consideration of the filing's consistency with applicable statutory policies and Commission regulations; appointed a Public Representative; and provided interested persons with an opportunity to comment.²

III. COMMENTS

The Public Representative filed comments on March 21, 2014.³ No other comments were received.

Based upon a review of the Postal Service's filing, including the information filed under seal with the Commission, the Public Representative concludes that the Agreement is functionally equivalent to the baseline agreement and that the prices under the Agreement should generate sufficient revenues to cover costs. PR Comments at 2. The Public Representative contends that the Postal Service's filing does not demonstrate that the GEPS 3 product as a whole covers its costs, as required by 39 U.S.C. § 3633(a)(2). *Id.* at 3. However, he asserts that if the product as a whole currently covers its costs, the Agreement will not cause the product's cost coverage to fall below 100 percent. *Id.*

IV. COMMISSION ANALYSIS

The Commission's responsibilities in this case are to ensure that the Agreement: (1) is functionally equivalent to the baseline agreement; and (2) satisfies the requirements of 39 U.S.C. § 3633 and applicable Commission rules (39 C.F.R. §§ 3015.5 and 3015.7).

Functional equivalence. In Order No. 503, the Commission approved the addition of GEPS 3 to the competitive product list and designated an agreement as the

² Order No. 2018, Notice and Order Concerning Additional Global Expedited Package Services 3 Negotiated Service Agreement, March 14, 2014 (Order No. 2018).

³ Public Representative Comments on Postal Service Notice Concerning Additional Global Expedited Package Services 3 Negotiated Service Agreement, March 21, 2014 (PR Comments).

baseline agreement for assessing the functional equivalence of agreements proposed for inclusion within the GEPS 3 product.⁴

The Commission has reviewed the Postal Service's reasons for asserting that the Agreement shares similar cost and market characteristics with the baseline agreement; meets the pricing formula and falls within the classification established in the Governors' Decision authorizing this product; and comports with 39 U.S.C. § 3633 and related Commission rules. It also has considered the Public Representative's comments. The Commission concludes that the Agreement is substantially similar to the baseline agreement because the differences between them do not fundamentally alter either the service the Postal Service will provide under the Agreement or the structure of the Agreement. The Commission therefore finds that the Agreement may be included within the GEPS 3 product.

Cost considerations. The Commission reviews competitive products to ensure they meet the applicable requirements of 39 U.S.C. § 3633 and 39 C.F.R. §§ 3015.5 and 3015.7. The Commission has reviewed the Postal Service's filing, including supporting financial analyses provided under seal, and the Public Representative's comments. Based on this review, the Commission finds that the Agreement should cover its attributable costs. 39 U.S.C. § 3633(a)(2). The Public Representative asserts that the Postal Service's filing does not demonstrate that the GEPS 3 product as a whole covers its costs but concludes that the Agreement will not cause the product's cost coverage to fall below 100 percent if the product currently covers its costs. PR Comments at 3. The Commission has determined that every agreement included within the GEPS 3 product should cover its costs. If every agreement included within the GEPS 3 product covers its costs, it is reasonable to conclude that the product as a whole should cover its costs. The Commission re-examines this conclusion every fiscal year as part of its Annual Compliance Determination. Because the Commission has concluded previously that each agreement included within the GEPS 3 product should

⁴ See Docket Nos. MC2010-28 and CP2010-71, Order No. 503, Order Approving Global Expedited Package Services 3 Negotiated Service Agreement, July 29, 2010, at 8 (Order No. 503).

cover its costs and because the Postal Service has shown that the Agreement should cover its costs, the Commission does not require additional information in order to conclude that the GEPS 3 product should cover costs if the Agreement is included within it.

Additionally, the Commission finds that the Agreement should not result in competitive products being subsidized by market dominant products, satisfying the requirements of 39 U.S.C. § 3633(a)(1). It also finds the Agreement should have a positive effect on the contribution of competitive products to institutional costs, in furtherance of 39 U.S.C. § 3633(a)(3). Accordingly, a preliminary review of the Agreement indicates it is consistent with the section 3633(a) provisions applicable to rates for competitive products.

Other considerations. The Agreement is set to expire one year after the effective date. Notice at 3.

The Postal Service intends for the Agreement to take effect April 1, 2014, but the Agreement itself does not establish an effective date. *Id.*; Notice, Attachment 1 at 6. The Postal Service shall promptly notify the Commission of the effective date of the Agreement. Upon termination of the Agreement by either party, the Postal Service shall promptly inform the Commission of this development and the date of termination. In addition, within 30 days of the termination of the Agreement, the Postal Service shall file costs, volumes, and revenues associated with the Agreement, including any penalties paid, disaggregated by weight and country group.

V. ORDERING PARAGRAPHS

It is ordered:

1. The Agreement filed in Docket No. CP2014-34 is included within the Global Expedited Package Services 3 (MC2010-28) product. The revision to the Mail Classification Schedule appears below the signature of this Order and is effective immediately.

2. The Postal Service shall promptly notify the Commission of the effective date of the Agreement.
3. The Postal Service shall promptly notify the Commission of the date of termination if the Agreement is terminated early by either party.
4. Within 30 days of the termination of the Agreement, the Postal Service shall file costs, volumes, and revenues, including any penalties paid, disaggregated by weight and country group.

By the Commission.

Ruth Ann Abrams
Acting Secretary

CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the product list. New text is underlined. Deleted text is struck through.

PART B—COMPETITIVE PRODUCT LIST

2500 Negotiated Service Agreements

2510 Outbound International

2510.3 Global Expedited Package Services (GEPS) Contracts

2510.3.6 Products Included in Group (Agreements)

Each product is followed by a list of agreements included within that product.

- GEPS 3
Baseline Reference
Docket Nos. CP2010-71 and MC2010-28
PRC Order No. 503, July 29, 2010
Included Agreements

CP2014-34, expires TBD
